

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2570 - SB 2538

February 16, 2016

SUMMARY OF BILL: Enacts the *Rural Economic Opportunity Act of 2016*. Establishes the Propelling Rural Economic Progress Fund (P.R.E.P. Fund) as a separate account in the General Fund, to be composed of funds appropriated by the General Assembly, and gifts, grants, and other donations received by the Department of Economic and Community Development (ECD) for the P.R.E.P. Fund. Authorizes ECD to allocate up to five percent of the annual program appropriations for program administration, marketing expenses, and program valuation. Requires monies in the P.R.E.P. Fund to be spent in all three grand divisions of the state, to the extent practicable, and prohibits commitments for grants from the P.R.E.P. Fund from exceeding appropriations made for the purposes of the program. Authorizes grants from the P.R.E.P. Fund to be made in all counties where the Commissioner of ECD determines that the grants will have a direct impact on employment and investment opportunities in the future. Such grants are authorized to be made only to local governments or their economic development organizations, other political subdivisions of the state, any subdivision of state government, or to not-for-profit organizations. Authorizes such grants to be used to facilitate economic development in rural areas or in a manner that directly impacts rural areas. Requires the Commissioner of ECD to make quarterly reports on the status of the commitments from the P.R.E.P. Fund, and to post certain information on the Departments website at least quarterly.

Decreases from 25 to 20 the minimum number of qualified jobs that a qualified business enterprise located in a Tier 3 enhancement county must create in order to qualify for the franchise and excise (F&E) job tax credit. Establishes that a qualified business enterprise located in a Tier 4 enhancement county must create at least 10 qualified jobs, in addition to making the required capital investment, to qualify for the job tax credit, and that the additional annual credit shall be allowed for a period of five years. In order to receive the additional annual credit, a qualified business enterprise located in a Tier 4 county, in an area designated as an adventure tourism zone, must create a minimum of 10 qualified jobs.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – \$10,000,000/FY16-17 and Subsequent Years/P.R.E.P. Fund

Decrease State Revenue – \$135,000/FY17-18/General Fund
\$270,000/FY18-19/General Fund
\$405,000/FY19-20/General Fund
\$540,000/FY20-21/General Fund
\$675,000/FY21-22/General Fund
\$810,000/FY22-23 and Subsequent Years/General Fund

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Increase State Expenditures –

\$10,000,000/FY16-17 and Subsequent Years/P.R.E.P. Fund

\$10,000,000/FY16-17 and Subsequent Years/General Fund

Increase Local Revenue – \$9,500,000/FY16-17 and Subsequent Years/Permissive

Increase Local Expenditures –

\$9,500,000/FY16-17 and Subsequent Years/Permissive

The Governor’s proposed budget for FY16-17, on page B-303, recognizes a one-time state appropriation for the Rural Development Initiative in the amount of \$10,000,000. The proposed budget, on page A-40, additionally recognizes a recurring decrease in state revenue to the General Fund in the amount of \$800,000.

Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional commercial activity in the state’s rural communities and distressed counties as a result of the Rural Development Initiative grants and F&E tax credits for qualified business enterprises, additional jobs created as a result of such grants and credits, and additional investments by local governments and business enterprises as a result of such grants and credits. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions related to the P.R.E.P. Fund:

- The Governor’s proposed budget for FY16-17, on page B-303, recognizes a one-time state appropriation for the Rural Development Initiative in the amount of \$10,000,000.
- The total amount of funds that will be appropriated to the P.R.E.P. Fund in subsequent years is unknown. However, based on the proposed appropriation in FY16-17, it is assumed that \$10,000,000 will be redirected from the General Fund to the P.R.E.P. Fund each year. It is further assumed that there will be no donations to the P.R.E.P. Fund.
- ECD will allocate \$500,000 ($\$10,000,000 \times 5\%$) for program administration, marketing expenses, and program valuation. The remaining funds, or \$9,500,000, will be available for grants to local government entities.
- ECD will not require any additional funding for program administration, marketing expenses, and program valuation.

Assumptions related to F&E Job Tax Credits:

- The proposed changes to the F&E job tax credits apply to tax years ending on or after July 1, 2016.
- Pursuant to Tenn. Code. Ann. § 67-4-2109(b)(1)(B), a qualified business enterprise must file a business plan with the Commissioner of the Department of Revenue in order to qualify for any job tax credits.
- Assuming that there are no currently filed business plans that are expecting to take advantage of the passage of this Act, it is estimated that the first year impacted by the proposed job tax credit changes will be tax year 2017, thus the first fiscal year impacted will be FY17-18.
- Each year, there will be one qualified business enterprise in Tier 3 enhancement county that will create 20 additional jobs and receive a \$4,500 job tax credit for each job in the year that the jobs are created, and an additional \$4,500 credit for each job for an additional five years, beginning in the year after the job creation.
- As a result, such an enterprise will receive \$90,000 (20 jobs x \$4,500 credit) in F&E tax credits each year for six years, including the year of job creation. The total credit that will be claimed by each Tier 3 qualified business enterprise over the 6 years is estimated to be \$540,000 (\$90,000 x 6).
- Each year, there will be one qualified business enterprise in Tier 4 enhancement county that will create 10 additional jobs and receive a \$4,500 job tax credit for each job in the year that the jobs are created, and an additional \$4,500 credit for each job for an additional five years, beginning in the year after the job creation.
- As a result, such an enterprise will receive \$45,000 (10 jobs x \$4,500 credit) in F&E tax credits each year for six years, including the year of job creation. The total credit that will be claimed by each Tier 4 qualified business enterprise over the 6 years will be \$270,000 (\$45,000 x 6).
- Accounting for the timing of such job creation, the decrease in state revenue to the General Fund is estimated to be: \$135,000 in FY17-18, \$270,000 in FY18-19, \$405,000 in FY19-20, \$540,000 in FY20-21, \$675,000 in FY21-22, and \$810,000 in FY22-23 and subsequent years.
- The Governor's proposed budget for FY16-17, on page A-40, recognizes a recurring decrease in state revenue to the General Fund in the amount of \$800,000.
- Any increase in expenditures for the Department of Revenue to accomplish the requirements of this Act will be not significant.
- Secondary economic impacts may occur as a result of this bill. Such impacts may be reflected as additional commercial activity in the state's rural communities and distressed counties as a result of the Rural Development Initiative grants and F&E tax credits for qualified business enterprises, additional jobs created as a result of such grants and credits, and additional investments by local governments and business enterprises as a result of such grants and credits. Due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE:

Increase Business Revenue – \$9,500,000/FY16-17 and Subsequent Years

Increase Business Expenses – \$8,000,000/FY16-17 and Subsequent Years

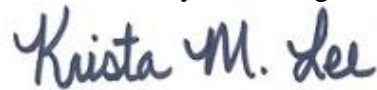
Jobs Impact – Exceeds 100/FY16-17 and Subsequent Years

Assumptions:

- Rural Development Initiative grants to local government entities are intended to enhance Tennessee's rural communities and distressed counties through programs related to site development, community asset improvements, marketing, strategic planning, downtown revitalization and technical assistance, with a goal of increasing such communities' competitiveness for locating businesses and enhancing local economies.
- As a result of the proposed Rural Development Initiative grants to local entities, business entities in rural communities across the state performing the work on behalf of local entities to accomplish the stated goals are estimated to realize an increase in recurring revenue of approximately \$9,500,000, beginning in FY16-17.
- Such businesses will also realize increased expenses in performance of such work.
- However, such increased business expenses, on the statewide level, will be offset to an extent by lower F&E tax payments to the state as a result of the proposed job tax credit changes under this Act.
- The net recurring increase in business expenses is estimated to be approximately \$8,000,000, beginning in FY16-17.
- The *Rural Economic Opportunity Act of 2016* is estimated to result in a significant number of jobs created in rural communities and distressed counties across the state.
- It is estimated that, in any given year, there will be a minimum of 100 jobs created across the state.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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